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THE DEPOSITORS' GUARANTY LAW OF OKLAHOMA[1]

During the recent presidential campaign the people of this country, especially those in the West, heard a great deal about the guaranteeing of bank deposits. The idea is not a new one. It has frequently been advocated in the past, and a few of our states long ago tried the experiment: New York in 1829, Vermont in 1831, and Michigan in 1836. In all these cases the experiments ended disastrously. In fact, it would be difficult to find a single example of the successful operation of such a scheme in this or any other country. Yet the advocates of the proposed plan, with varying degrees of inaccuracy, cite Germany's system of municipal savings banks, Canada's 5 per cent. guaranty of bank notes, Georgia's "chain-of-banks" system, and other unwarranted analogies, as ample evidence of their wisdom. Now comes the new state of Oklahoma, and under the inspiration of Mr. Bryan and Governor Haskell, the world is given another guaranty law—a sure preventive of any future financial disasters. Fortunately this is the only recent measure of the kind thus far enacted, but it is greatly to be feared that it will not long retain its solitary position, unless the spread of the false doctrine throughout the West is speedily checked.

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Perhaps it is not strange that this doctrine should have taken a deep hold upon the people of this section in the midst of the dire effects of the recent financial panic. Those experiences were calculated to arouse a general distrust of banks and a corresponding demand for greater safety of deposits. It was easy, therefore, to resurrect this idea from the almost forgotten past and raise a clamor for its immediate adoption. It seemed so plausible and looked so good on the surface that many were naturally misled by its false promises as voiced by the press, politicians, and pseudo-financial reformers. In view of this widespread interest in the subject it may be well to study the operation up to date of the new Oklahoma law, passed in a great hurry, with very little discussion, during the first session of the legislature of that state.

This law was approved by Governor Haskell, December 17, 1907, but has actually been in operation only since February 14, 1908. Its chief distinctive features are found in various sections of Article 2. A guaranty fund is created and placed under the general management of the State Banking Board, composed of the governor, lieutenant governor, president of the Board of Agriculture, state treasurer, and state auditor. Each bank and trust company organized under the laws of the state is required to contribute 1 per cent. of its daily average deposits for the preceding year, less deposits of United States and state funds properly secured. Annually thereafter each such bank and trust company shall report its average daily deposits and contribute 1 per cent. on whatever this amount may exceed the previous averages. If the fund is depleted from any cause, a special assessment is levied sufficient to keep up the fund to 1 per cent. of the total deposits. Any new bank or trust company, when organized, shall pay 3 per cent. of its capital stock into the guaranty fund. From the total fund thus created the depositors of any insolvent bank or trust company complying with the provisions of the law are to be paid immediately, the state then having a first lien upon the assets of the insolvent corporation.

The idea seems to be prevalent among many people in Oklahoma, neighboring states and elsewhere, that the state government stands pledged to pay all bank losses. It cannot be emphasized

too strongly that this is incorrect. The credit of the state is not in any way pledged to the payment of deposits in any bank. If the fund is lost in any way, it does not become a liability of the state, but would have to be replaced by another assessment. The State Banking Board is not required by law to give any kind of an indemnity bond as security for the fund, but the board has adopted a rule of its own requiring the state treasurer, who acts as special custodian of the fund, to give a $25,000 bond. Furthermore, this guaranty fund is not kept in cash in the state treasury, but is redeposited in the banks and kept loaned out by them. The Oklahoma law, therefore, provides simply for a segregation of a certain small percentage of the assets of the state banks. If this fund holds out, losses will be paid; if it does not hold out or if the loans made from it cannot be cashed promptly, the losses cannot be paid. Last October the total fund amounted to only $135,000.

While the guaranty feature of the law is compulsory upon all state banks, it was left optional with the national banks operating within the state. From the first many doubted the wisdom and legality of the national banks qualifying under the Oklahoma law. Finally, August 1, 1908, Attorney-General Bonaparte rendered an opinion to Secretary Cortelyou, to the effect that permission could not be given to national banks to take advantage of the law, on the ground that contribution to the guaranty fund amounts to a contract by a bank to guarantee the obligations of a third party. Thereupon the United States Treasury Department issued an order forbidding national banks in Oklahoma to qualify under the state law. Those national banks that had already done so were obliged to withdraw, thus losing the money paid in, or surrender their charters as national banks, and take out new ones from the state.

The other provisions of the Oklahoma law regarding the conditions and methods of incorporating banks, the restrictions imposed upon them, and the examination and supervision of the same, are not materially different from the banking laws of most other states, and consequently need not be described.

Soon after the new law went into effect the Noble State Bank

instituted a suit against the State Banking Board in the District Court of Logan County, asking for an injunction restraining the board from levying the 1 per cent. assessment, on the ground that the law requiring it was unconstitutional. On February 19, 1908, that court, presided over by Judge A. H. Huston, denied the relief asked by the plaintiff. Thereupon the case was promptly appealed to the Supreme Court of the state, which body, September 11, 1908, reaffirmed the decision of the District Court and upheld the constitutionality of the law. The opinion rendered in this case was written by Chief Justice Williams and was fully concurred in by the other judges. It is a voluminous document, filling 43 pages of the reports, and discusses some of the questions involved in great detail. About two-thirds of the entire opinion is devoted to a very detailed discussion of the general right of the legislature to amend and repeal charters, which right is urged in refuting the alleged impairment of the plaintiff's contractual rights. Numerous federal and state constitutional and statutory provisions, with their interpretation by the courts, from early times to the present, are cited. To a layman, however, it would seem that the court might better have devoted less time and thought to the discussion of this fundamental right long ago recognized in our jurisprudence, and given us a much fuller, more specific, and satisfactory treatment of the other constitutional questions raised by this case. Only a very few pages are devoted to the specific discussion of the other allegations of the plaintiff, and these pages are none too convincing on some of the points touched. Many reputable lawyers throughout the country, and even in Oklahoma, consider the law unconstitutional, notwithstanding the decision of the Supreme Court of the state. Actuated by the same belief the Noble State Bank promptly appealed, and September 28, 1908, the case was docketed in the United States Supreme Court, where it now rests for final decision.

Whatever one may think of the legal arguments of the Oklahoma court, one discovers numerous *ex-cathedra* passages in the dicta, which seem somewhat out of place in a judicial opinion. Many of the passages contain almost, if not quite, the exact

language of certain speeches made in favor of bank guarantees during the recent presidential campaign; in fact, they sound more like a political harangue than a sober, dignified, legal opinion. The judges seemed to think it incumbent upon them, not only to uphold the constitutionality of the law, but also to give vent to their private opinions concerning its wisdom, expediency, and probable effects, and, in doing so, used arguments that seem untenable and even absurd to many students of the problem.

Of course it must be admitted that the Oklahoma law has not yet been in operation long enough to enable one to judge its ultimate effects adequately and fairly. Time alone can tell whether some of the greatest benefits claimed for the law by its arch-defenders will materialize in practice. If, however, it can be shown that the law is already producing opposite effects to those predicted by its champions, and that these are plainly harmful, the law stands condemned to that extent, and it may fairly be inferred that the law is liable to fail in other and perhaps more vital respects, when it has once been tried under the stress of those conditions that in other places have always resulted in wholesale bank failures with their attendant economic disaster. It certainly is not safe to assume that this law is the panacea which will avert such conditions and disaster, until it has proven its ability to do so in actual practice. Judging from the reports concerning the operation of the law up to date, its expediency may fairly be questioned, both negatively and positively. What, then, are the signs of danger already revealed by the operation of this law?

First, let us note that the Oklahoma law has not "closed the door of hope" against "the reckless, dishonest, and incompetent banker" as Justice Williams predicts in his opinion, but has actually opened it much wider than it was before, so that the state today seems to be entering upon an era of wildcat banking, which, if it is not checked, will ultimately result in financial disaster. There has been a very rapid increase in the number of state banks, and in most localities this mushroom growth has not been warranted by the increase of loans or by general business development. Furthermore, most of these banks have been capi-

talized on the minimum legal basis, viz., $10,000, and at the same time numerous state and national banks, in the process of reorganizing, have reduced their capital to the same minimum. Thus the underlying security of the state's banking system has been greatly diminished. Unfortunately, also, many of the members of the state's banking fraternity are undeniably incompetent and inexperienced in the business, their dishonesty, and in some cases criminality, has been clearly proven, and they are conducting their banks in the most reckless manner, offering rates of interest for deposits that no conservative banker could possibly afford to pay, presumably in order to raise funds with which to engage in various kinds of speculation.

Between January 1 and October 31, 1908, forty-seven new state banks and two new national banks were organized in Oklahoma. All but five of these new state banks were capitalized at only $10,000 each. During the same period twenty-two banks were reorganized under the provisions of the new law, most of which had formerly been private banks in Indian Territory. Many of these banks reduced their capitalization at the time of their reorganization. Up to the time that Attorney-General Bonaparte rendered his decision that the national banks in Oklahoma could not legally take advantage of the new law, fifty-seven of them had become participants in the plan. After this decision forty-five of the nationals withdrew from the guaranty and the remaining twelve were converted into state banks by new charters. These denationalized banks naturally reduced their capital very greatly; one national with a capital of $100,000 was reorganized as a state bank with only $10,000 capital, and yet increased its deposits; seven others with an aggregate capital of $200,000 reorganized with only $97,500. The records show that in one day, September 9, 1908, the secretary of state issued charters for five new banks and one loan and investment company, their total capitalization being only $104,000. Although this appears to be the highest daily record up to date, it would hardly be safe to assume that the final limit has been reached. The possibilities for speculative banking seemingly afforded by this law are too alluring to expect the pseudo-financiers of Okla-

homa to rest content with that paltry record. Certain it is that the state mill has not yet ceased to grind out its grist of new bank charters. Indeed it would seem to be true that the mill must grind whether its managers will or not. The State Banking Board has at last become alarmed over the rapid increase of banks and is trying to check it, but seemingly in vain. This board recently refused to issue a bank charter to an applicant from a very small town that already had three banks, but the parties concerned immediately instituted mandamus proceedings in the District Court of Logan County to force the issue of a charter. On September 5, 1908, Judge A. H. Huston, the presiding officer of that court, handed down his decision to the effect that the State Banking Board had no right to refuse the charter. In his opinion he stated that the facts that other banks in a town objected, or that an objection was raised on the ground that the applicant was inexperienced in the banking business, were not matters for the banking board to consider, but that it was compelled, under the law, to grant a right and issue a charter to any corporation seeking one, as long as the papers were properly executed. Thus the banking board seems to be powerless to check this mushroom growth.

A few typical illustrations will perhaps show more clearly the practical operation of this law. Two men recently started a bank in Oklahoma City, a town of forty to fifty thousand inhabitants, with a capital of only $25,000, an inadequate amount for a city of that size. When someone ventured to criticize them for capitalizing so low, they retorted, "What do we care about capital? The state is in partnership with us." Ralston, with a population of only 578, and Fairfax, with a still smaller population of 470, are two towns only about eight miles apart. When the new law went into effect each had two national banks, certainly enough for such small towns. Now one new state bank is in operation in each town, and one more state bank for each has been organized and is fighting to get established. In each town the two nationals have $25,000 capital each, while the new state banks are each capitalized at only $10,000. Another town with a population of about 1,000 now has four banks, two of

which were recently organized under the new law; the total deposits of the four banks are less than $100,000. In many small towns throughout the state we find four banks, where only one or two could hope to prosper under ordinary conditions. The little village of Harrah is an extreme illustration of the prevailing mania for starting new banks. It has only about 150 inhabitants—all that it seems likely to have for some years—and yet it already has two banks, one of them organized recently under the new law; their total local deposits are less than $15,000. We might perhaps look with less disfavor upon this wholesale establishment of new banks in communities where there is little or no need for them, if we could be sure that they are being organized by honest and capable bankers, who may be expected to manage them efficiently and conservatively. A few further illustrations, however, would seem to indicate that the state has not much to hope for in the character of the organizers and managers of the numerous new banks. One man just released from the state penitentiary, where he was confined as a public defaulter, has recently organized a new bank and seems to be securing quite large deposits. Another man failed in business in Kansas a few years ago for $31,000. Soon after he resumed business in his wife's name in Oklahoma, where he again failed, making his father-in-law a preferred creditor for $100,000, his real creditors never receiving a cent. Then he organized a national bank, but obtained only $27,000 deposits on a capital of $25,000. On the first of last July he started a state bank under the new law, and on September 23 his deposits amounted to $111,381.75. He now has three banks and blatantly announces that he will soon start twelve more, making the celebrated chain of fifteen banks, so widely heralded in recent newspaper issues throughout the country. It is also interesting and suggestive to note that the cashier of one of these banks is under indictment for embezzlement. In another case, a saloonkeeper, who had been shut out of business by the prohibition law, started a bank with a very small capital and soon had deposits ranging between $30,000 and $40,000.

Other similar examples might be given, if our allotted space

allowed, but enough have been cited already to serve our purpose. Let us, for a moment, depart from the realm of facts that have already passed into history, and venture a suggestion concerning one of the dangerous future possibilities under the Oklahoma law. What but the most drastic and efficient inspection and supervision, thoroughly alert to discover and thwart all the tricks of keen, dishonest bookkeepers, can prevent unscrupulous men from organizing a bank capitalized at the legal minimum, creating large fictitious deposits as the proceeds of a lot of dummy notes, then letting the bank close its doors and calling on the guaranty fund to pay these deposits in cash?

The question naturally arises, How can men of the character cited in the above examples secure large deposits? The answer is very simple. When it is generally believed that deposits in all banks are equally safe, all that an unscrupulous banker has to do is to offer high rates of interest and the deposits roll in unstinted. Under the new Oklahoma law we find reckless bankers offering 5, 6, and even 8 per cent., presumably to secure funds to use in all sorts of speculation. It is true that the banking board has limited the rate to 3 per cent. on short-time deposits and 4 per cent. on long-time deposits, but the order is being evaded all over the state by bank officials personally paying the excess over the legal rate. Not only have excessive interest rates been offered, but a good deal of misrepresentation has been indulged in to attract large deposits. Everything possible has been done to create the false impression that the state's credit is pledged to pay all losses. One finds numerous misleading bank advertisements in newspapers, periodicals, circulars, and even on the checks of various banks containing some such statement as the following: "Your Deposits in this Bank Are Guaranteed by the State."

It is difficult to see how the arch-defenders of the Oklahoma law can reconcile their high-sounding claims with these hard, cold facts of actual experience, for we must remember that they indignantly deny that the law will stimulate reckless banking. They claim that under this law only men of "good precedents, reputation and associations" can get bank charters. We have

seen how far from the facts this contention is. They claim also that the capital investment and double liability of stockholders will insure the selection of honest officials and the use of conservative methods. Here, again, they overlook several facts. The reduction of bank capital to the legal minimum, which the Oklahoma law encourages, weakens the investment motive for honest, conservative management. Experience shows that stockholders, directors and officers who are positively dishonest and intent upon reckless speculations, are quite willing to risk the legal minimum of capital in order to secure the use of the large deposits that are made possible by the false confidence in the equal security of all banks. And right here, it must be remembered, that the worst evils will probably not be traceable to the positively dishonest men who enter the business with the deliberate intention of fleecing the public. There is a certain amount of potential dishonesty and recklessness in every community, men who act honestly and conservatively when they are compelled or think it to their advantage to do so. The guaranty of deposits, by removing or weakening the motive for honesty and conservatism, tends to turn, by gradual, easy and almost unconscious stages, a great deal of potential dishonesty into a positive force capable of doing the utmost harm.

Most defenders of the Oklahoma law unconsciously admit the inadequacy of capital investment as a restraining force, when at the same time they declare that there must be the most rigid regulation and supervision of banks. If the first is a sufficient guaranty, as they claim, what need is there for the other? But without quibbling about this inconsistency, let us note that they fail to recognize the extreme difficulty, if not impossibility, of establishing such a drastic, searching, and efficient supervision as would insure the prompt detection of all the numerous bookkeeping tricks, by which dishonest bankers can cover up their illegitimate and reckless practices until the final crash comes. They also fail to see that the guaranty of deposits tends to prolong the period of false confidence among depositors, during which such tricks can be used, thus delaying their discovery and increasing the ultimate losses. Again they claim that if the

present restrictions are insufficient to check reckless banking, the law can easily be amended so as to make it a criminal offence for bankers to offer higher rates of interest on deposits than those fixed by the state, to speculate with the funds thus secured, to borrow from their own banks, or to loan more than a certain amount to any one party. But would it be easy or even possible to enforce criminal penalties upon all such offenses? Since when has it become possible to cure all such practices simply by the miraculous "be it enacted" of criminal law? The difficulty of detecting or convicting the offender, and of securing and keeping a public sentiment that would uphold the enforcement of the penalty, would still exist. Finally, some enthusiastic champions of the law even claim that it will bring a better class of men into the banking business and raise their average character to a higher level. It is difficult, however, to follow their line of reasoning. We certainly prefer to take the facts as they are actually occurring, rather than be swayed by such an extravagent theoretical argument.

There are some other statements in the dicta of the Oklahoma court that cannot be left unchallenged. It is said that "under this law each banker is his brother banker's keeper," yet the law creates no effective means whereby the honest and efficient banker can watch for and prevent wildcat banking on the part of unscrupulous competitors in his own community, much less check the same evil elsewhere. The court also seeks to justify a general guaranty of individual deposits on the ground that "the national, state, county, municipal and district governments" require specific security for their deposits; in doing so it really quotes one of the most hackneyed and fallacious arguments used by politicians. In reality the two cases are not parallel. A bank in giving security to a government does so voluntarily and does not share the benefits derived from the transaction with a "brother" banker, while this law *compels* one banker to become security for others, who reap as much benefit as he does, and often more. Besides, the government's money is really a loan rather than a deposit, and, as such, legitimately demands special

security; there is nothing to prevent any large private loaner from exacting a corresponding security from his bank.

We think the court makes a still more fundamental mistake when it declares that "there is no danger of any general and unnecessary withdrawal of deposits" from a guaranteed bank in "eras of depression and discontent." The plain implication is that the Oklahoma law is going to prevent financial panics in that state, and most advocates of the law have no hesitation in positively and loudly crying this prediction from the housetops. Again we must differ from the statement of the learned judge. Experience shows that lack of confidence in banks is usually the result or culmination of a panic rather than the cause. Even then "runs" are usually confined to banks whose management warrants special suspicion; sound banks are rarely closed by runs. Furthermore, the growth of reckless banking stimulated by this law and the undermining of the underlying security of all the "guaranteed" banks in the state, which we shall presently show is likely to result from it, will ultimately increase bank failures to an alarming extent. It may be predicted that, if this law is left on the statute books of the state, Oklahoma will soon give the world some startling examples of "high finance" and eventually experience such a panic as few states of like wealth have ever witnessed. And when that panic comes, of what avail will be the present paltry guaranty fund? Will not a fund ten, or even twenty, times as large be required to reimburse all innocent depositors? One fundamental mistake made by most advocates of the law has been the assumption that because the average losses under the national banking system during a period of 43 years have only been about 1-26 of 1 per cent. of the average deposits, a similar assessment will be sufficient to meet all the losses of exceptional years. They seem to forget that most of the past losses have been bunched together during a very few brief intervals. How large a tax would have been required to pay the losses in 1893 or 1907, or even a single million-dollar failure, such as has already occurred in Oklahoma? This law does not contemplate building up from year to year a fund large enough to meet such occasional contingencies, but simply

keeps the fund approximately equal to 1 per cent. of the total deposits at any one time, because, as it is claimed, there will be no more panics in Oklahoma. Another fact, already noted, must be remembered in this connection. The guaranty fund is redeposited in the banks and loaned out. In times of panic or general financial stringency it would be very difficult if not impossible to convert these loans into cash. On the other hand, would it not be unwise to tie up in a general fund sufficient actual cash to protect depositors in times of panic?

The friends of the Oklahoma law, in their contention that panics will be averted, are laying great emphasis on the fact that there have been only two small bank failures in the state since the law went into operation. As if that proved anything! More than one state without a guaranty law has had as good, or even better, record during the same period. And yet the greatest publicity possible has been given to one of these failures, viz., that of the International State Bank of Coalgate, seemingly for political purposes. It was heralded all over the country that here was a bank failure where all depositors were paid immediately, and that the public confidence was so great that some farmers preferred to wait until their crops were harvested before taking the trouble to call for their money. This case looks suspicious on its face. If public confidence was so great, what closed the bank? A fair examination of the facts in this case shows that the widely advertised Coalgate failure was a miserable fiasco, and would seem to justify the following statement made by its president, Dr. L. A. Connor:

> I will never believe anything else but that my bank was closed by Bank Examiner Smock on telephone orders from Gov. Haskell, for no other purpose than to make a demonstration of the depositors' guaranty law for the Democratic Convention at Denver.

The pretext given for closing the bank was the statement that the president, cashier, one director and two other stockholders owed the bank about $19,000, which they could not pay on the demand of the commissioner. Yet these same notes appear to have been held by the bank at the time it was accepted by the same commissioner and a certificate of guaranty issued to it.

The comparative bank statements submitted to the grand jury proved that the bank was actually in a better financial condition when it was closed than it was when opened. There was over $17,000 in the bank when it was closed, and this, together with outstanding notes that apparently could have been collected, would have been sufficient to pay all claims, but the receiver apparently made no attempt to collect any notes. From the testimony given before the grand jury by Commissioner Smock himself, it appears that the bank was really solvent when it was closed, and this body, after thorough investigation, completely exonerated the officials of the bank. Furthermore, the solvency of the bank would seem to be corroborated by the fact that less than $600 of the guaranty fund was required to satisfy all depositors, and that without collecting a single outstanding debt. Mr. Smock reported to the grand jury that he was satisfied that the bank was solvent and did not wish to close it, but after a telephone communication with the governor he was again sent to Coalgate and finally closed the bank. It is also significant that Mr. Connor was a Republican. All these facts seem to indicate that Mr. Connor's opinion, quoted above, had a good basis. How absurd, therefore, to herald this Coalgate failure throughout the land as a striking proof of the beneficent effects of the Oklahoma law!

This law, instead of making deposits permanently safer, tends to decrease the underlying security of all state banks in several ways. There is absolutely nothing in the law that even proposes to increase or strengthen the primary security underlying all deposits, viz., capital, surplus, undivided profits, reserves and stockholders' liability. On the contrary, we have seen that the law has already led to the reduction of capital in numerous cases of reorganization and to the organization of many new banks on the minimum legal basis. If human nature is the same in Oklahoma as in other states, the same policy will undoubtedly be followed in regard to reserves and surplus. The chief motive that induces bankers to increase these funds beyond the legal limit is the feeling that this policy will attract additional patronage to their banks and protect them against unforeseen

contingencies. But when everything possible is done to make all banks look alike to depositors, what motive has the banker for longer pursuing this policy? It will simply mean loss to him, without any compensating gain; he will therefore reduce his reserve and divide the surplus as profits among the stockholders. If this policy is pursued much further than it already has been, it will require a good many assessments on the banks to offset this decrease in their underlying security. "What shall it profit" the banks if they gain the whole fund and lose their own character and primary security? The advocates of the law boast that smaller reserves will suffice under the guaranty fund and that the bankers will derive great benefit from this fact. They seem to forget that a general cutting down of reserves means a tremendous loss in underlying security.

The Oklahoma law fails to discriminate between cash and credit deposits. Most people overlook the fact that 85 to 90 per cent. of all bank deposits are really created by loans. The business man gives his note to his bank and gets in return the credit of the bank, which is negotiable. The Oklahoma law, therefore, mainly protects creditors of banks, who become such by reason of loans made to the banks, either by themselves or others, and these creditors or depositors can only be such on account of existing loans. It is manifestly unjust to compel the banker to pay cash into a guaranty fund to protect credit depositors, and in turn not protect him against loss in his loan department.

This law attempts to put all banks on a basis of exact equality. "The man who has spent a lifetime in building up an honorable reputation is sacrificed for the sake of making some poor, incompetent, dishonest banker exactly equal to him." We contend that it is morally wrong to compel one banker to pay for the losses, mismanagement and defalcations of another. The advocates of the law retort that all existing restrictions upon banking compel the innocent to suffer for the guilty. They point to the fact that honest bankers are compelled to keep reserves at a loss and pay for enforced examination. These restrictions, however, really protect the honest banker and not the other fellow; without a guaranty law each banker stands on his own merits. It

should be strongly emphasized that no guaranty law can really make all bankers equal, and we predict that no such law can permanently be executed.

Another question arises: Who will pay the tax? It is a mistake to assume that banks will pay it out of net profits. The tax becomes an item of the bank's expense, which is certain to be included in their general expense account. Consequently the scheme, "really means coinsurance of deposits, and the depositor must, in the last analysis, pay for the protection extended. You can no more have your deposits insured free of cost to you than you can have your buildings insured at the expense of some one else." Why not frankly admit this fact and place in the law a clause compelling the depositor to pay at least a part of the tax at the time he places his money in the bank? And if such a clause were inserted, how long would the law stand on the statute books?

The influence of the law upon the relative deposits in the state banks, and the national banks operating in the state, is very difficult to determine accurately, as so many other factors enter into the problem. There seems to be good reason, however, for believing that the widely circulated reports of gains in state banks and losses in nationals have been greatly exaggerated. Some even assert, and apparently with good reasons, that many of these reports have been "cooked" for political effect. One important basis for possible manipulation has been the $5,000,000 school fund recently given to the state in cash by the federal government, most of which was deposited in state banks in the name of the Secretary of the School Land Board and not considered as a state deposit. One thing is certain, i. e., that even the various reports, made by the friends of the law themselves, have differed quite widely, while the reports made by the opponents of the law show still smaller gains by the state banks than any of those made by its friends. On the whole it may be considered that the total individual deposits in state banks have gained, and possibly national banks may have lost, but to no great extent. It was claimed that the law would bring out vast quantities of hoarded money and it has since been asserted that it has actually had that effect. Reliable reports seem to indicate

that some hoarded money has been brought out, but that the amount has been greatly exaggerated. Some money has also been sent to Oklahoma banks from other states, but here again the amount seems to have been exaggerated.

The foregoing study of the operation of the Oklahoma law forces us to the general conclusion that no such law can be permanently successful without the most drastic government supervision, but if such supervision can be enforced, no assessment is necessary. This, to our mind, is the gist of the whole matter. What is really needed is a strengthening of the motive for honest, conservative and efficient banking rather than to let down the bars for dishonest and reckless bankers by creating a feeling of false confidence in all banks, by removing the need for using discriminating judgment in selecting our bankers, and by attempting the impossible task of making all banks equal. The true line of development is to create as searching and effective a system of bank supervision as possible. Much progress has already been made in this direction, and this has been a great factor in securing the magnificent past record of our national banking system. Let an alert public opinion continue to draw the lines still closer, and our deposits will be as safe as anything can be where safety is conditioned upon the exercise of good judgment as it is in the extension of bank credit.

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